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E.O. 12958: DECL: 04/25/2017
TAGS: MARR PGOV PREL JA
SUBJECT: SPECIAL MEASURES AGREEMENT BACKGROUNDER

REF: TOKYO 1341

Classified By: Charge d'Affaires, a.i., Joe Donovan, Reasons 1.4 (B) (D)

¶1. (C) SUMMARY: The current Special Measures Agreement (SMA) expires March 31, 2008. For the next SMA, the Japanese government will likely seek significant reductions in utilities reimbursements, and perhaps, labor costs. In the last round of negotiations, the Japanese government agreed to a two-year extension at the current levels; they then implemented significant reductions in Japan's voluntary contributions under the Facilities Improvement Program (FIP) which is not covered in the SMA. Embassy Tokyo and U.S. Forces Japan recommends pressing the Japanese at a political level to commit to maintaining its SMA contributions at current levels for an additional three-year period. If Japan insists on negotiating for a full five-year SMA, then we recommend pushing for an overhaul of the current agreement that would more accurately reflect current operational requirements. END SUMMARY.

A HISTORY OF JAPAN'S HOST NATION SUPPORT

¶2. (C) Japan's provision of Host Nation Support (HNS) for U.S. forces is a pillar of the U.S.-Japan alliance. Under the Security Treaty Japan has provided HNS to the United States by making land available for the stationing of U.S. forces. The Japanese government added labor cost sharing in 1977 and 1978, agreeing to pay some of the allowances of Japanese national employees under the Master Labor Contract (MLC). In 1979, Japan created the voluntary Facilities Improvement Program (FIP), to fund certain construction projects on U.S. bases in Japan. In 1987, the Japanese government agreed to the first bilaterally negotiated Special Measures Agreement (SMA), under the terms of which they began to pay a portion of MLC and Indirect Hire Agreement (IHA) workers, basic wages. In 1991, utility cost sharing was introduced, and in 1996, reimbursement for relocating GOJ-requested training was added.

CURRENT NUMBERS

¶3. (C) In 2005, Japan's direct HNS amounted to 381 billion yen (USD 3.03 billion), or about 62 percent of U.S. stationing costs, excluding military pay. In terms of money spent by the Government of Japan to support U.S, forces, the SMA accounted for 140.4 billion yen (USD 1.12 billion) of the

2005 Direct Support costs (388.67 billion yen), or 36 percent. The current SMA is composed of three categories:

-- Labor Cost Sharing (LCS), 113.3 billion yen (USD 0.903 billion) or 84 percent of the overall agreement;
-- Utilities Cost Sharing (UCS), 25.8 billion yen (USD 205.3 million);
-- Training Relocation (TR), 1.3 billion yen (USD 10.4 million).

¶4. (U) Under Labor Cost Sharing, the Japanese government pays virtually all of the salaries and benefits for Japanese workers employed by USFJ subject to a cap of 23,055 employees. The average number of Japanese national employees for JFY 2005 was 25,272. The USFJ service components thus pay salaries for 2,217 Japanese nationals, although the Japanese government contributes 17 percent of the labor costs for each worker above the cap under provisions of the 1977 and 1978 agreements.

¶5. (U) Under Utilities Cost Sharing, the Government of Japan pays for about 71 percent of public utilities on U.S. bases (Electricity, FJ1 fuel oil, Natural Gas, Kerosene, Propane, Sewerage, and Water), with the utilities funded under the SMA determined by ceilings fixed in units of energy (e.g. kilowatts), not yen. Prior to the current SMA, the Government of Japan also paid for off-base utilities costs, but as of the 2001 SMA these are now absorbed by the U.S.

¶6. (U) Training Relocation covers the incremental costs involved in transferring, at GOJ request, three types of training conducted by U.S. forces in an effort to reduce the burden on local communities. These training activities are: Field Carrier Landing Practice (FCLP) at Iwo Jima, Okinawa-based artillery live fire, and paradrop training at Ie Shima.

THE LAST ROUND

¶7. (C) Past SMAs were negotiated for five-year terms. The current SMA, which came into being on April 1, 2006, only covers a two-year period. Government of Japan negotiators, in justifying the two-year &interim8 agreement, acknowledged that ongoing realignment discussions made analysis of future SMA costs difficult. This interim agreement did not come without its own hidden costs in the form of Japanese unilateral cuts in the Facilities Improvement Program (FIP), totaling nearly 25 percent, or USD 160 million.

PUSH FOR A THREE YEAR EXTENSION

¶8. (C) During the final stages of Defense Policy Review Initiative (DPRI) negotiations, then-Defense Minister Nukaga promised then-Secretary of Defense Rumsfeld he would use his influence to obtain a subsequent 3-year interim agreement. Japanese working-level officials deny that this "Gentleman's Agreement" equals a formal commitment for a new 3-year agreement. Country Team recommends pressing for an early and high-level decision from the Japanese government to accept the 3-year interim agreement (Reftel). The upcoming Security Consultative Committee (2 2) meeting provides an excellent platform for the U.S. government to push the Japanese to get a definitive answer.

JAPANESE EXPECTATIONS

¶9. (C) If Tokyo refuses a 3-year extension, the Government of Japan will likely seek a fully renegotiated 5-year SMA with sharp decreases. We expect Government of Japan,s main objectives in the negotiations will be to cut funding for utilities cost sharing as much as possible, and reduce certain labor costs (through attrition, benefit reductions, and eliminating support for &profit-making8 organizations). We expect no similar push regarding Training Relocation costs, since this directly benefits local Japanese

communities.

¶10. (C) The Japanese government is likely to highlight its planned contributions to base realignment under the May 1, 2006 Alliance Transformation agreement. The USG should resist such a linkage, since the GOJ will incur significant costs no earlier than 2011. Most of the realignment costs Japan will bear are related to relocation of forces to meet Japanese local political, rather than operational, realities. In this sense, the logic for delinking the two is the same as existed ten years ago, when Japan agreed to fund base realignment under the Special Action Committee for Okinawa (SACO) without reference to ongoing SMA contributions.

Objectives for a 5-Year SMA

¶11. (C) If Japan does insist on a new 5-year agreement, Country Team advocates initially pressing for changes that will more adequately address current and future needs of U.S. Forces stationed in Japan. The USG should seek an adjustment in overall SMA funding based on current documented, operational requirements (i.e., on labor, Government of Japan funding for all validated Japanese employee requirements above the current ceiling; on utilities, an adjustment in the current Government of Japan ceilings to reflect current operational tempo costs).

LABOR

¶12. (C) On Labor Cost Sharing, USFJ has identified a number of areas for improvement in the event of new negotiations:
-- Ask the Government of Japan to fund the 2,217 Japanese national employees over the ceiling of Japanese government-funded positions, plus 2,426 additional documented requirements that are not resourced by the Government of Japan. Japanese workers free up U.S. military personnel to focus on operational, vice support tasks.
-- Avoid changes to benefits, such as new holidays, that cause productivity losses. If unavoidable, ask that any productivity losses be compensated through the addition of new Government of Japan-funded Japanese employee positions.
-- Resist attempts to discuss labor benefits in the SMA context. These discussions should be referred to more appropriate forums such as the Joint Labor Affairs Committee and Labor Subcommittee of the Joint Committee.

UTILITIES

¶13. (C) There has been an overall increase in operating expenses and utility costs, driven largely by the upward trend in prices of gas and fuel over the past decade, and a relatively higher operations tempo since 2001. On Utilities Cost Sharing, the following areas should be prioritized if negotiations are required:
-- Seek an update to the ceilings on energy use funded by Government of Japan to reflect current usage by U.S. forces. The upper limits presently in place for each energy category are based on 1994 data that does not reflect the heightened operational tempo.
-- Ensure that the migration to natural gas is accompanied by an increase in the upper limit, as well as Government of Japan funded on-base infrastructure upgrades to allow use of natural gas on USFJ bases.
-- Alternatively, eliminate the ceilings on utility categories and commit to a general fixed yen amount program of funding.
  -- Current requirements for utilities suggest a position of 35.5 billion yen (USD 284 million).
-- If a cut to utilities is unavoidable, ensure that it is phased in gradually over the life of the agreement to ensure Service components can plan for increased Operations and Maintenance (O&M) costs.
-- Insert wording into the SMA that defines the methodology by which DFAA computes unit costs for utilities for budgeting purposes, and directs that any further changes to the

methodology should be agreed upon in the Facilities Sub-committee.

TRAINING RELOCATION

¶14. (C) Training relocation remains the least controversial issue associated with SMA. The overall focus of the program should be to ensure the Japanese are providing relocation sites that support required training rather than asking the U.S. to adjust training to support convenient relocation sites.

DEALING WITH JFIP

¶15. (C) JFIP is a purely voluntary contribution by the Government of Japan. The intent of the JFIP is to address deteriorated and insufficient troop and family housing; deteriorated fuel facilities endangering the environment or for fire safety; and to mitigate the impact of US base activities (i.e. noise). Given the 2005 experience where the Government of Japan transferred their expectations for SMA cuts onto JFIP, we should seek a formula to prevent unilateral Japanese cuts in JFIP.

¶16. (C) Country Team expects the Japanese government to further decrease JFIP money except in Sasebo and Yokosuka where the Government of Japan is committed politically to those projects. JFIP is currently scheduled to be reduced an additional 16.3 billion yen in JFY 07 (6.4 billion yen to be reallocated to a separate budget, 2.3 billion yen through savings from all projects, and 7.3 billion yen in project cancellation). While the Country Team does not propose explicitly including JFIP in the next SMA, we should seek a firm Japanese commitment to maintain the JFIP program outside of SMA negotiations.

CALENDAR: TARGET AGREEMENT BY NOVEMBER

¶17. (C) Japanese officials have asked that we delay the start of formal negotiations on SMA until after the Upper House elections on July 22nd, assuming that we will be discussing a 5-year agreement. This being the case, we should press for a definitive answer on a 3-year extension at or soon after the upcoming 2 2. If Japan rejects the 3-year extension, we will need to begin informal talks well before the Upper House election with an eye to initiating formal negotiations in early August.
¶18. (C) Due to a need to submit the JFY2008 budget draft to the Cabinet in December, the Japanese government will likely seek a finalized agreement by early November. The U.S. should not allow the Japanese to use an artificial date to force 11th hour compromises. Even if no agreement is reached by early November, Country Team expects the Japanese to use the supplemental budget process to fund the SMA for JFY2008.

DONOVAN